



Treasury Inspector General for Tax Administration

MORE CAREFUL MONITORING OF BILLINGS FOR WORKING CAPITAL FUND ADMINISTRATIVE SERVICES IS NEEDED

Issued on April 27, 2007

Highlights

Highlights of Report Number: 2007-10-074 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The Department of the Treasury Working Capital Fund (the Fund) was established to provide common administrative services that benefit more than one bureau within the Department of the Treasury and, in certain circumstances, other agencies. It is funded through advance payments from various Department of the Treasury bureaus, including the Internal Revenue Service (IRS).

Fund billings to the IRS for actual costs incurred were not consistently subject to any type of review for accuracy or reasonableness by the IRS, which puts the IRS at risk of being unable to timely identify potential errors and overcharges. In addition, \$34 million of the \$97 million in total charges TIGTA reviewed were not accurately recorded by the IRS. Effective controls over Fund-related transactions are critical to the IRS' ability to ensure accountability for its expenditures and to accurately report the results of its financial transactions to both internal and external stakeholders, including taxpayers.

WHY TIGTA DID THE AUDIT

The audit was initiated to determine whether the IRS has established adequate controls to effectively monitor and accurately record transactions related to the administrative services it receives from the Fund. This is one of the coordinated audits being conducted in conjunction with the Treasury Office of Inspector General that provide comprehensive coverage of this critical, multibureau program. The Fund Fiscal Year 2007 budget is \$267 million; the IRS' allocated share is \$209 million.

WHAT TIGTA FOUND

TIGTA found weaknesses in two critical areas related to the IRS' monitoring of the administrative services it receives from the Fund. First, the IRS did not subject its Fund billings for actual costs incurred to any type of

review for accuracy or compare them to current year estimated program expenditures for reasonableness. Compounding the risk of this condition is the magnitude of these expenses. For example, billings to the IRS for actual Fund services totaled more than \$100 million during the period October 2005 through June 2006. At the time of our review, the IRS had no procedures in place requiring the review and certification of Fund billings as accurate before they are entered into its general ledger as valid expenses.

Second, expense transactions relating to actual Fund expenditures were not always accurately recorded. Our review of a random sample of Fund-related expenditures recorded in the IRS general ledger during the period October 2005 through June 2006 identified a number of instances in which material financial transactions were misclassified. Similarly, Fund program expenditures were frequently allocated to obligations not directly related to the expenditures. In total, \$34 million of the \$97 million in charges TIGTA reviewed were misclassified. Inaccurate financial management information compromises the ability of the IRS to readily monitor costs and produce reliable accounting data.

Finally, the Department of the Treasury was unable to readily substantiate the need for more than \$60 million it accumulated from the IRS and held in the Fund as of December 2006. TIGTA shared this information with Treasury Office of Inspector General staff, who indicated they will be performing further detailed testing in this area.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Financial Officer develop procedures requiring that Fund billings be reviewed and certified as accurate before entry into IRS records as valid expenses, request that the Department of the Treasury include additional information on the Fund billing statements to better facilitate the review and accurate recording of Fund-related transactions, revise procedures to require that Fund expenditures be allocated only to obligations directly related to the expenditures, and periodically review expenditures related to the Fund to ensure the account classifications are consistent with the definitions of the Fund services being received.

In their response to the report, IRS management agreed with all of our recommendations. They are planning to take adequate corrective actions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710074fr.pdf>.

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037